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INFO RUCNCLS/ALL SOUTH AND CENTRAL ASIA COLLECTIVE
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RUEHAK/AMEMBASSY ANKARA 5503
RUEHBJ/AMEMBASSY BEIJING 3225
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RUEHIT/AMCONSUL ISTANBUL 3746
RUEATRS/DEPT OF TREASURY WASHDC
RHEHNSC/NSC WASHDC
RUCPDOG/DEPT OF COMMERCE WASHDC
RHMCSUU/CDR USCENTCOM MACDILL AFB FL
RUEAIIA/CIA WASHDC
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UNCLAS SECTION 01 OF 02 ASHGABAT 000991

SENSITIVE
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TAGS: [ECON](#) [EAID](#) [EBRD](#) [PGOV](#) [EFIN](#) [SOCI](#) [TX](#)

SUBJECT: TURKMENISTAN: EBRD MOVING AHEAD ON SME GREEN FIELD
BANK CONCEPT

REF: A. ASHGABAT 111

[1](#)B. ASHGABAT 139

[1](#)1. (SBU) On August 4, Poloff met with a visiting EBRD Small Business Development Mission, Senior Banker Oksana Pak and Senior Investment Officer Marie-Paule Claes, and local Head of Office Neil McKain to discuss EBRD's proposed start-up bank project. The concept to establish a privately held bank, operating on a strictly commercial basis and focused on lending to small and medium enterprises (SME), has been approved by the EBRD. The purpose of the Mission was to lay the groundwork for a U.S. Treasury-funded feasibility study.

[1](#)2. (SBU) The new bank would be set up under auspices of Turkmenistan Union of Entrepreneurs. The Union has already been working on such a concept for a year. Ownership of the bank would be held by a mix of international financial institutions (EBRD, International Finance Corporation, FMO Dutch Development Bank) and interested members of the Union (44 total), some of whom are EBRD clients. The project for a private SME bank lending on commercial terms apparently has the support of President Berdimuhamedov, at least the concept. The Union's chairman is actively pursuing the effort. EBRD could put the project together without Union involvement, but considers the involvement of local entrepreneurs would play an important role in capacity building. The final level of local interest and involvement remains to be seen. Although the Central Bank is nominally EBRD's government partner, in practice EBRD goes directly to Deputy Chairman for Economy and Finance Tuwakmammet Japarov to get government approval for its proposals, including this bank.

[1](#)3. (SBU) Key threshold issues for the feasibility study are the legal regulatory framework, the ownership structure and market demand for such loans. All three pose challenges. The new bank would need to operate on commercial terms, without government interference. Part of any final agreement to set up the bank will include a list of "Ten Commandments," agreed to by the government, to insure that the bank has freedom to charge commercially feasible interest rates and

make loans according to its own standards. Currently there is no lending carried out by Turkmen banks on commercial terms. For example, a government-funded SME loan program offers loans at five percent interest, but because that rate is heavily subsidized and provides no profit for the lending bank, in practice such loans are not promoted. EBRD estimates that the start-up bank's loan rates would be in the 25-30 percent range, taking into account the cost of capital (which is high because the bank likely would not have a substantial deposit base), inflation and the bank's built-in margin, which would itself be 11-12 percent due to the high cost of processing such loans. That level of interest rate poses two challenges: making sure the government does not interfere to cap the rate at an unprofitable level, and overcoming marketplace resistance from potential borrowers who are accustomed to government-subsidized loan rates, even if in reality such loans are not available to them. The Union's chairman told EBRD that he wanted the bank to be open by October 28, 2009. EBRD officials felt a more likely target date would be October 2010.

14. (SBU) COMMENT: The concept of lending on a truly commercial basis is a novel one for the Turkmen. While the project is a reasonable step in the direction of establishing a commercial banking sector in Turkmenistan, implementation will require buy-in from Turkmen authorities, including the almost 100 percent state-owned banking sector. While in theory, dealing directly with the presidential apparatus could push the necessary approvals (read "presidential directives") through the system, in practice, the opposition of the entire banking sector would be a tough burden. This bank project

ASHGABAT 00000991 002 OF 002

will serve as a litmus test of the government's willingness to back-up its free market, private sector reform rhetoric with the requisite policies. END COMMENT.
MILES